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C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 000532

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TAGS: [ELAB](#) [ENRG](#) [PGOV](#) [EINV](#) [AR](#) [VE](#)
SUBJECT: CHAVEZ TO NATIONALIZE LATIN AMERICA STEEL LEADER
SIDOR

REF: A. CARACAS 341

- [1](#)B. CARACAS 494
- [1](#)C. 2007 CARACAS 59
- [1](#)D. 2007 CARACAS 1518

Classified By: Acting Economic Counselor Shawn Flatt,
for Reason 1.4 (D)

[1](#)1. (C) Summary: BRV Vice President Ramon Carrizalez announced April 9 that President Chavez had decided to nationalize the steel company, Ternium Siderurgica del Orinoco (Sidor), owned by Luxembourg based Ternium and controlled by Argentine group Techint. The announcement comes after a year of labor strife during which the Sidor union had called for the company's nationalization several times. The move is supported by the steelworkers union and appears to benefit the BRV both politically and economically in the short term. The decision may weaken the relationship between the Chavez and Kirchner governments and further deter foreign investment in Venezuela as well as dampen enthusiasm for Venezuela's full Mercosur membership. End Summary.

BACKGROUND

[1](#)2. (U) Sidor was state-owned until the end of 1997 when it was privatized for USD 1.2 billion. Estimates of its current value range from USD three to six billion. The BRV currently owns 20 percent of Sidor shares, current workers and retirees own another 20 percent and Ternium owns 60 percent. Sidor produces flat steel products and steel piping used in the oil industry. The company has 5,400 workers and 9,000 contractors, predominantly Venezuelan. Sidor produces 4.3 million tons of liquid steel annually. In a related development, according to media reports from April 14 and 15, the BRV will nationalize Tenaris Tavsa which is located on the same property as Sidor. Tavsa employs 250 workers and makes seamless steel tubes also for the oil industry.

Labor Issues

[1](#)3. (SBU) Over the previous 15 months union workers have demanded higher pay, an end to contract workers, and expanded benefits (Ref A). The Union of Iron and Steel Industry Workers (Sutiss) had been making ever escalating wage demands to attract union members (Ref A). Sutiss members generally favored nationalization of Sidor (although there are minority pro-opposition factions). Workers and former workers also have stock ownership issues-when the company was privatized, many workers were granted stock. In general workers and

retirees with stock did not favor nationalization, those without stock generally favored nationalization, hoping the BRV would subsequently sell them stock as well. According to local media, the Ministry of Basic Mining and Industry met with the workers group on April 12 and told them the BRV would not sell them Sidor stock. (Note: At this point, we believe all of the workers belong to Sutiss. End note)

14. (U) Chavez sent Vice President Carrizales to aid in the negotiations between Sidor management and Sutiss. Carrizales later told the media that Chavez had made the decision to nationalize Sidor at 1:20 AM on April 9. At a press conference later that day, Carrizalez stated that he had relayed to President Chavez that Sidor management had left the negotiating table "arrogantly" after failing to provide counterproposals regarding increases in worker's salaries. Carrizalez reported that Chavez then instructed him to inform Sidor that the BRV was taking control of Sidor because he could not accept the "colonial attitude" with respect to counterproposals and insults to the workers.

15. (U) The Argentine group Techint which owns or controls the Ternium shares (60 percent of total Sidor stock) had tried to convince Chavez to continue negotiating. According to the Argentine newspaper La Nacion, Paola Rocca, President of the Techint group, had agreed to incorporate over 600 contract workers, increase salaries over 130 percent and adjust the pensions of over 2500 contract workers. One year ago in May 2007, during a similar labor conflict Chavez had threatened to nationalize Sidor when then Argentine President Nestor Kirchner intervened and the threat did not materialize.

Proposed Nationalization Plan

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16. (SBU) During his April 9 press conference Carrizales stated that the BRV Minister of Basic Industry and Mining, Rodolfo Sanz will represent the BRV in compensation negotiations with Sidor. He also suggested that Techint could retain a 20 percent minority interest in Sidor. The BRV would own 60 percent and the final 20 percent would remain with the workers. With the recent BRV decision to nationalize foreign cement companies (Ref B) and the 2007 BRV decision to nationalize strategic sectors including energy and telecommunications (Ref C) there is speculation that the BRV may be short of ready cash. The BRV may also be trying to find a way to retain Techint's management and technical expertise.

17. (C) On April 9, during a meeting with Econoff, executives at one of Venezuela's largest "casas de bolsas" (a combination of brokerage house and investment bank), expressed bewilderment at the nationalization of Sidor. "It's compulsive, like buying a Ferrari after you've already gone on a buying spree and are short on cash", one commented. They estimated the equity value of SIDOR at USD 6 billion. They speculated that, in the likely event that the BRV had trouble quickly raising the necessary cash, President Chavez would simply order his negotiating team to stall until the money was available. (Comment: Assuming the value of Sidor is between USD five and USD six billion and given the BRV currently owns 20 percent, in order to reach the proposed goal of 60 percent ownership the BRV would have to compensate Sidor between USD 2 to 2.4 billion. End comment.) According to Venezuelan financial services BBO Weekly (<http://bbo.com.ve>) "the nationalization of oil, cement, food and steel means the BRV will have to spend slightly above USD 20 billion". (Comment: Ternium/Techint may not have interest in retaining 20% of a company controlled by the BRV. End Comment.)

Benefits; why Nationalize?

¶8. (C) The nationalization of Sidor reduces the cost of importing specialized steel products. PDVSA uses specialized petroleum piping that Sidor produces, which up to this point it has imported since price controls limited the amount Sidor sold to the Venezuelan market. PDVSA has been tasked with building 60,000 homes as part of its social programs. Using nationalized Sidor steel in construction will decrease the costs to PDVSA. According to several Venezuelan University professors there in effect is no domestic political price to pay for the nationalization. It fits in with Chavez' determination to control "strategic sectors" and it also may improve his support among trade unions in the short term.

The Costs; Relations with Argentina, Mercosur, Investment

¶9. (C) There has been little reporting in media outlets regarding the Government of Argentina (GOA) reaction to the Sidor takeover. In his reclama letter, Paola Rocca highlighted the importance of strengthening relations between Venezuela, Brazil (the Brazilian company Usiminas also owns some stock in Ternium) and Argentina in the Mercosur trade block. (Comment: The nationalization of Sidor could strain the BRV/GOA relationship and weaken support for Venezuela's formally joining Mercosur, which remains in limbo (Ref D). End Comment.) The effect on private investment will be predictable. According to BBO weekly, "private investment will continue to be paralyzed as everyone wonders who will be next".

¶10. (C) Comment: It appears that Chavez is attempting to shore up his position domestically (at the expense of his Latin American and broader international relations) in advance of the November gubernatorial and mayoral elections. The nationalizations indicate Chavez is still determined to implement "Socialism in the 21st Century" despite the rejection of his constitutional reforms last December. The price may be a further delay in Mercosur membership. That is probably a price Chavez is willing to bear for now. End Comment.

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